

COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE



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ARIZONA CORPORATION COMMISSION

ORIGINAL

DATE: NOVEMBER 9, 2007

DOCKET NO: E-01575A-07-0446

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Order on:

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

NOVEMBER 19, 2007

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

NOVEMBER 27, 2007 and NOVEMBER 28, 2007

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

A handwritten signature in black ink, appearing to read "Brian C. McNeil".

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

Arizona Corporation Commission
DOCKETED

NOV 09 2007

DOCKETED BY A rectangular stamp with the text "DOCKETED BY" followed by a handwritten signature that appears to be "MN".

AZ CORP COMMISSION
DOCKET CONTROL

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RECEIVED

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 MIKE GLEASON, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF
9 SULPHUR SPRINGS VALLEY ELECTRIC
10 COOPERATIVE, INC. FOR AUTHORIZATION
11 TO INCUR DEBT TO FINANCE ITS
12 CONSTRUCTION WORK PLAN AND FOR
13 RELATED APPROVALS.

DOCKET NO. E-01575A-07-0446

DECISION NO. _____

ORDER

14 Open Meeting
15 November 27 and 28, 2007
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 Having considered the entire record herein and being fully advised in the premises, the
19 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

20 * * * * *

21 **FINDINGS OF FACT**

22 1. On July 27, 2007, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or
23 "Cooperative") filed an application with the Arizona Corporation Commission ("Commission")
24 requesting authorization to incur debt to finance its construction work plan for 2008-2009 ("2008-
25 2009 CWP").

26 2. On September 6, 2007, the Cooperative filed an affidavit of publication verifying
27 public notice of its financing application. The Cooperative published notice of its financing
28 application in the *Eastern Arizona Courier* on August 26, 2007, and in the *Sierra Vista Herald/Bisbee Daily Review* and the *San Pedro Valley News-Sun* on August 29, 2007.

3. On October 29, 2007, the Commission's Utilities Division Staff ("Staff") filed its Staff
Report in this matter, recommending approval of the application. On November 1, 2007, Staff filed
an Amended Staff Report, attaching an inadvertently omitted schedule from the original Staff Report.

1 4. On November 5, 2007, SSVEC filed a Response to the Staff Report. SSVEC stated it
2 has no comments to the Staff Report findings or recommendations, but requested consideration of its
3 application by the Commission as soon as possible so that it may close the loan and have access to
4 the loan proceeds by the end of the year 2007.

5 5. SSVEC is an Arizona non-profit, member-owned cooperative located in Willcox,
6 Arizona. It provides electric distribution service to approximately 49,000 customers in parts of
7 Cochise, Santa Cruz, Pima and Graham Counties.

8 6. SSVEC's current rates were approved in Decision No. 58358 (July 23, 1993).

9 7. SSVEC is requesting Commission approval to borrow up to \$70.78 million from the
10 National Rural Utilities Cooperative Finance Corporation ("CFC"), and to pledge, mortgage, lien
11 and/or encumber its assets in connection with the CFC Credit Facility.

12 8. The Cooperative plans to utilize the debt proceeds to fund the increased capital
13 expenditures necessary to construct new facilities to serve a growing customer base and to replace
14 and improve various older facilities.

15 9. The 2008-2009 CWP addresses six areas of concern, including:

- 16 a. Rapid growth from larger subdivisions has created a conductor overload of portions of
17 the 05 feeder. Upgrades of conductor size will alleviate much of the overloading
18 problems.
- 19 b. The R3 feeder out of the Ramsey Substation serves a fast growing area in the southern
20 part of SSVEC's service area. SSVEC is considering its options for a new substation.
- 21 c. The V7 radial feeder that serves the Sonoita/Patagonia area is a source of frequent
22 outages. SVECC plans to construct approximately 23 miles of 69 kV sub-
23 transmission line and a new 69/25 kV substation and feeders.
- 24 d. The Sunsites and Pearce areas have experienced steady growth for a number of years,
25 and there is a new large subdivision approved in Sunsites. SSVEC plans to acquire
26 land and rights-of-way for a new Sunsites substation. Construction of the substation
27 will occur after the 2008-2009 CWP.
- 28 e. The W5 feeder serves Hauchuca City, Whetstone and the former Babocamari Land

Grant. The Babocamari land has over 800 platted home sites, with approximately 100 homes now built. SVVEC plans to convert its line serving the area to 25 kV. Even with the upgrade the area remains a concern, but SVECC does not plan additional action in the 2008-2009 CWP.

- f. SSVEC proposes to construct a new Stewart to Mortenson 69 kV line, as the old line is not expected to remain standing for the next three to five years without significant rebuilding.

10. The 2008-2009 CWP includes \$46,505,000 in distribution projects, \$19,970,000 in transmission projects and \$6,195,000 for other projects. The cost of the projects included in the 2008-2009 CWP totals \$72,670,000, of which CFC has agreed to finance \$70,780,000. The 2008-2009 CWP budget is summarized as follows:

<u>PROJECT DESCRIPTION</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
1. DISTRIBUTION			
New Lines	\$1,505,000	\$1,550,000	\$3,055,000
Major Subdivisions (over \$200,000 each)	\$1,100,000	\$1,200,000	\$2,300,000
New Feeders and Tie Lines	\$745,000	\$3,000,000	\$3,745,000
Conversions & Line Changes	\$4,210,000	\$3,530,000	\$7,740,000
New Substations	\$4,100,000	\$3,900,000	\$8,000,000
Substation Changes	\$250,000	\$50,000	\$300,000
Misc. Distribution Items	\$6,980,000	\$7,795,000	\$14,775,000
Other distribution Items	\$3,295,000	\$3,295,000	\$6,590,000
Distribution Totals	\$22,185,000	\$24,320,000	\$46,505,000
2. TRANSMISSION			
New Transmission Line	\$3,250,000	\$7,670,000	\$10,920,000
New Transmission Substations & Switching Stations	\$500,000	—	\$500,000

1	Transmission Line Changes	\$3,625,000	\$3,825,000	\$7,450,000
2	Transmission Substation Changes	\$1,050,000	\$50,000	\$1,100,000
3	Transmission Totals	\$8,425,000	\$11,545,000	\$19,970,000
4				
5	3. OTHER PROJECTS			
6	Communications	\$50,000	\$25,000	\$75,000
7	Buildings, Land Improvements	\$110,000	\$10,000	\$120,000
8	Distributed Generation	\$6,000,000	---	\$6,000,000
9	Other Projects Total	\$6,160,000	\$35,000	\$6,195,000
10	GRAND TOTALS	\$36,770,000	\$35,900,000	\$72,670,000

11. SSVEC expects the loan will be drawn down at regular intervals over the two-year period covered by the 2008-2009 CWP as follows:

Inception Date	Amount Drawn	Maturity
1/2/2008	\$9,000,000	1/2/2043
4/1/2008	9,000,000	4/1/2043
7/1/2008	9,000,000	7/1/2043
10/1/2008	8,753,000	10/1/2043
1/2/2009	9,000,000	1/2/2043
4/1/2009	9,000,000	4/1/2044
7/1/2009	9,000,000	7/1/2044
10/2/2009	8,026,067	10/1/2044
Total	\$70,779,067	

12. The Cooperative expects the new CFC Credit Facility to have an interest rate not to exceed 7.5 percent.

1 13. The CFC approved the Credit Facility on July 11, 2007.

2 14. The Commission's Engineering Staff reviewed the 2008-2009 CWP and finds that the
3 list of projects is appropriate to meet both the new load growth in SSVEC's service territory and to
4 maintain the existing distribution system in a safe and reliable manner.

5 15. Staff finds that the projected costs of the planned projects are reasonable.

6 16. Staff cautions, however, that its conclusions concerning the appropriateness of the
7 planned projects should not be interpreted to imply a specific treatment for rate base or rate-making
8 purposes in the Cooperative's future rate case filings.

9 17. As of December 31, 2006, SSVEC had a capital structure consisting of 3.4 percent
10 short-term debt, 62.4 percent long-term debt and 34.2 percent common equity. At that time, based on
11 its existing debt, the Cooperative had a Time Interest Earned Ratio ("TIER") of 1.80¹ and Debt
12 Service Coverage ("DSC") of 1.56².

13 18. Based on financial information for the year ended December 31, 2006, Staff
14 performed a pro forma analysis, based on current rates, to reflect the effect of the issuance of the new
15 debt through 2009. Staff's assumptions incorporated a loan amortized over 35 years at an interest
16 rate of 7.5 percent. Staff's analysis indicates that after drawing \$35.75 million through the end of
17 2008, the Cooperative would have a capital structure consisting of 2.7 percent short-term debt, 71.6
18 percent long-term debt and 25.7 percent equity; a TIER of 1.27 and DSC of 1.45. After drawing an
19 additional \$35.03 million, Staff's analysis indicates that at the end of 2009, the Cooperative would
20 have a capital structure consisting of 2.4 percent short-term debt, 76.3 percent long-term debt and
21 21.3 percent equity; and a TIER of 0.76 and DSC of 1.10.

22 19. In its Staff Report Staff acknowledges that its pro forma TIER indicates that in 2009,
23 operating income would become insufficient to cover interest expense, but that the DSC indicates that

24 _____
25 ¹ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
26 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
term but does not mean that debt obligations cannot be met in the short run.

27 ² DSC represents the number of times internally generated cash will cover required principal and interest payments on
28 short-term and long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt
obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
and that another source of funds is needed to avoid default.

1 SSVEC would be able to meet its debt obligations with cash from operations.

2 20. Staff noted further that it typically recommends that cooperatives try to maintain a
3 capital structures with a minimum of 30 percent equity of total capital, as Staff believes 30 percent
4 equity is appropriate to provide a balance between cost and financial risk for regulated utilities and
5 ratepayers.³ Staff notes that in this case, it is recommending approval of the debt that would, all else
6 being equal, reduce equity from 34.2 percent of total capital to 21.3 percent of total capital. Staff
7 explains that it makes its recommendation because there is no other known immediate option to
8 finance the 2008-2009 CWP. Staff notes further that in the long-term, increased rates would provide
9 additional equity.

10 21. Staff notes further that SSVEC has no compliance issues.

11 22. Staff concludes that the estimated costs associated with the 2008-2009 CWP appear to
12 be reasonable, and that the issuance of the proposed debt financing for the purposes stated by the
13 Cooperative is within SSVEC's corporate powers, is compatible with the public interest, is consistent
14 with sound financial practices and will not impair its ability to provide services.

15 23. Staff recommends that the Commission authorize SSVEC to obtain financing for its
16 2008-2009 CWP through a credit facility not to exceed \$70.78 million from CFC and to pledge,
17 mortgage, lien and/or encumber its assets in connection with the CFC loan; to authorize SSVEC to
18 engage in any transaction and to execute any documents necessary to effectuate the authorization
19 granted; and that SSVEC file one copy of the executed loan document with Docket Control within 60
20 days of execution.

21 24. We find that the requested debt is in the public interest, as it is needed to finance
22 important infrastructure construction and repair projects that are required to provide safe and reliable
23 service in SSVEC's service area. Staff's financial analysis indicates that, at least in the short run,
24 SSVEC is able to meet the projected debt service obligations, but that its financial ratios will be
25 significantly negatively impacted by the additional debt. We understand that Staff's projections are
26 based on a snap shot in time of the Cooperative's financial condition, and do not take into account
27

28 ³ For investor-owned utilities Staff states it generally recommends a minimum equity ratio of 40 percent.

1 additional revenue from growth. We note, however that SSVEC has not had a rate case since 1993,
2 and depending on projected growth and continuing capital investment needs subsequent to the 2008-
3 2009 CWP, it may be time for SSVEC to consider filing for rate relief. Thus, unless SSVEC files an
4 application for a rate increase by December 31, 2009, we will require the Cooperative to file with the
5 Commission by March 1, 2010, documentation detailing its capital structure, and if its equity is not
6 equal or greater to 23 percent of its total capital as of year end 2009, it should include an analysis and
7 projections for equity levels over the following three years. This report on SSVEC's equity position
8 will keep the Commission informed in a timely manner about this aspect of the Cooperative's
9 financial condition.

10 25. For the reasons stated herein, Staff recommendations are reasonable and should be
11 adopted.

12 CONCLUSIONS OF LAW

13 1. SSVEC is a public service corporation within the meaning of Article XV of the
14 Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

15 2. The Commission has jurisdiction over SSVEC and of the subject matter of the
16 application.

17 3. Notice of the application was given in accordance with the law.

18 4. The financing approved is for lawful purposes within SSVEC's corporate powers, is
19 compatible with the public interest, with sound financial practices, and with the proper performance
20 by SSVEC of service as public service corporations, and will not impair its ability to perform the
21 service.

22 5. The financing approved herein is for the purposes stated in the application, is
23 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
24 chargeable to operating expenses or to income.

25 ORDER

26 IT IS THEREFORE ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is
27 hereby authorized to borrow up to \$70.78 million of long term debt from the National Rural Utilities
28 Cooperative Finance Corporation at an interest rate not to exceed 7.5 percent, for the purposes set

1 forth in the application and set forth herein.

2 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is
3 authorized to pledge, mortgage, lien and/or encumber its assets in connection with the loan approved
4 herein.

5 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is
6 authorized to engage in any transactions and to execute or cause to be executed any documents or
7 modifications to existing documents to effectuate the authorization granted herein, including notes
8 and bonds evidencing or securing the indebtedness authorized herein.

9 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon
10 Sulphur Springs Valley Electric Cooperative, Inc.'s use of the proceeds for the purposes stated in the
11 application and approved herein.

12 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall file
13 with Docket Control, as a compliance item in this docket, a copy of all executed financing documents
14 within 60 days after the date of execution.

15 IT IS FURTHER ORDERED that unless Sulphur Springs Valley Electric Cooperative, Inc.
16 files an application for a rate increase by December 31, 2009, it shall file with the Commission, as a
17 compliance item in this docket, by March 1, 2010, documentation showing its capital structure as of
18 December 31, 2009, and if its equity is not equal or greater to 23 percent of total capital as of year-
19 end 2009, such report shall include an analysis and projections for its equity balance over the next
20 three years.

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IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN _____ COMMISSIONER _____

COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2007.

DEAN S. MILLER
INTERIM EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

JR

1 SERVICE LIST FOR: SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01575A-07-0446

3

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